

	2019	2020	2021	2022	2023
California	14,306	14,617	15,035	15,480	16,119
% Growth		2.2%	2.9%	3.0%	4.1%
% of Total Access Lines	52.5%	52.2%	52.0%	51.6%	51.4%
Texas	7,345	7,617	7,928	8,324	8,800
% Growth		3.7%	4.1%	5.0%	5.7%
% of Total Access Lines	26.9%	27.2%	27.4%	27.8%	28.0%
Missouri	2,112	2,172	2,233	2,319	2,410
% Growth		2.8%	2.8%	3.9%	3.9%
% of Total Access Lines	7.7%	7.8%	7.7%	7.7%	7.7%
Oklahoma	1,362	1,396	1,431	1,484	1,549
% Growth		2.5%	2.5%	3.7%	4.4%
% of Total Access Lines	5.0%	5.0%	4.9%	4.9%	4.9%
Kansas	1,122	1,149	1,177	1,223	1,277
% Growth		2.4%	2.4%	3.9%	4.4%
% of Total Access Lines	4.1%	4.1%	4.1%	4.1%	4.1%
Arkansas	783	811	843	873	907
% Growth		3.6%	3.9%	3.6%	3.9%
% of Total Access Lines	2.9%	2.9%	2.9%	2.9%	2.9%
Nevada	245	256	272	287	308
% Growth		4.5%	6.3%	5.5%	7.3%
% of Total Access Lines	1%	1%	1%	1%	1%
Total	27,275	28,018	28,919	29,990	31,370
% Growth		2.7%	3.2%	3.7%	5.0%

Southwestern Bell					
Access Lines	12,724	13,145	13,612	14,223	14,943
Wireless Customers	538	736	1,002	1,304	1,620
Southwestern Bell Total Lines	13,262	13,881	14,614	15,529	16,560
Pacific Bell					
Access Lines	14,306	14,617	15,035	15,480	16,119
Wireless Customers	—	—	—	—	—
Pacific Bell Total Lines	14,306	14,617	15,035	15,480	16,119
Nevada Bell					
Total Access Lines	245	256	272	287	308
Cellular One					
Total Wireless Customers	875	1,313	1,969	2,368	2,813

SBC					
Access Lines	27,275	28,018	28,918	29,989	31,370
Wireless Customers	1,413	2,049	2,992	3,672	4,433
SBC Total Lines	28,443	29,811	31,618	33,362	35,460

Southwest	2.4%	2.3%	3.2%	2.3%	2.7%
Texas	2.4%	2.2%	3.5%	2.5%	2.8%
California	1.2%	0.6%	2.7%	2.8%	3.8%
Nevada	8.3%	7.8%	12.5%	9.4%	9.6%
U.S. GDP Growth	2.7%	2.3%	3.5%	2.0%	2.4%

Interstate					
Southwestern Bell	29,002	30,593	32,269	35,264	38,412
Pacific Bell	26,538	28,318	30,575	31,712	35,200
Nevada Bell	865	947	1,023	1,062	1,161
Total	56,405	59,858	63,867	68,038	74,773
Intrastate					
Southwestern Bell	11,277	11,982	14,050	15,625	16,700
Pacific Bell	19,343	20,409	21,802	26,308	28,138
Nevada Bell	54	70	80	111	136
Total	30,674	32,461	35,932	42,044	44,974

SBC GROWTH PROFILE 1997

marketing

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Marketing



SBC's marketing strategies start from our understanding that customers want breadth, simplicity, coverage, and quality. Our strategies are designed to expand the market, attract new customers and grow revenues per subscriber.

SBC's marketing success is built upon the right brands, the right people, and the right strategy.

SBC has built its reputation as a marketing leader through its accomplishments over the past four years in designing, developing, marketing and selling SBC's broad array of telecommunications services. Those accomplishments have been built upon a firm foundation of:

- Networks that are designed to reach our customers and provide the services they want;
- Operations support resources committed to providing the service quality customers demand; and

- An External Affairs organization dedicated to achieving regulatory approval for the deployment of new products and services and pricing mechanisms that are responsive to intensifying competition as identified by our marketing staff.

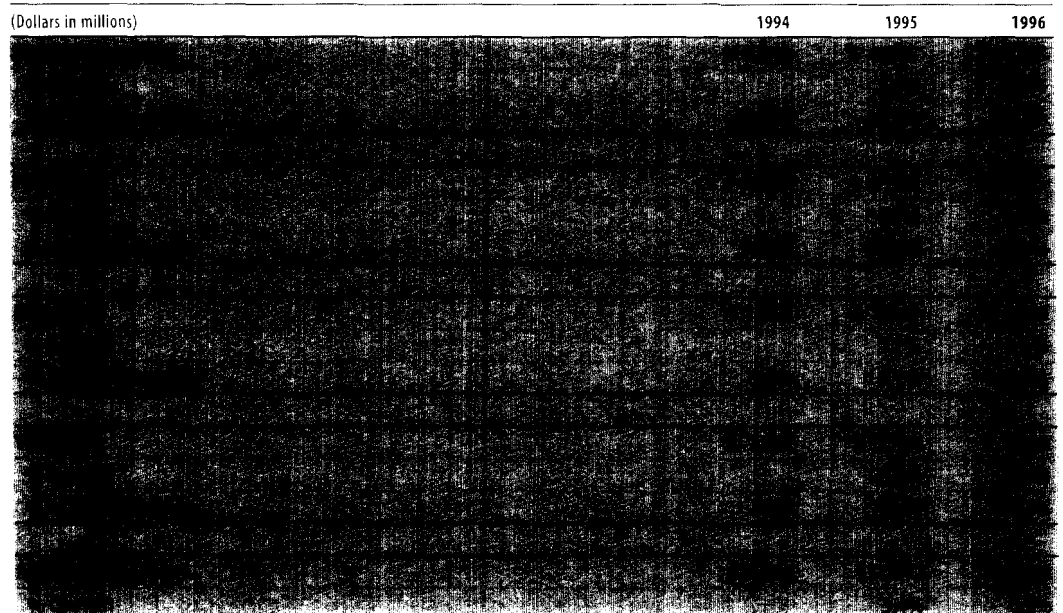
The marketing organization's success in growing SBC's revenue base is founded upon the essential ingredients of the right brands, the right people, and the right strategy.

SBC's World-Class Brands

All of SBC's marketing efforts are designed to reflect, reinforce, and take

SBC Revenue Growth

(Dollars in millions)



*Local and Long Distance Revenue Only.

SBC's marketing strategy is firmly grounded in customer needs and expectations.

advantage of its world class brands:



Among the most recognizable and respected in American business and industry, the positive attributes of these core brands – stability, dependability, capability, and localness – taken together create trust. And trust is the basis of our relationship with customers, the basis of our competitive advantage, and the essence of our marketing strategy.

Our Growing and Respected Marketing Team

The corporation's marketing efforts are now led by a strong team of highly diverse and talented senior executives, some "homegrown" and several with marketing experience outside of SBC in consumer services marketing, technology marketing, and the long-distance industry. Each comes to the marketing team with distinguished business experience in hotly competitive but varied markets ranging from consumer credit management and air transportation to cable TV, telephone systems, data network equipment and long distance.

Our Solid, Consistent, and Disciplined Marketing Strategy

SBC has achieved its unmatched track record for revenue growth through a consistent marketing strategy firmly grounded in customer needs and expectations.

Our marketing starts from the objective of providing:

- A breadth of services so that our customers can better manage their lives and businesses.

- Greater simplicity in how our customers buy and use our products.
- More diverse coverage so that our customers don't have to look far for our products and services.
- An assurance of quality which is the cornerstone attribute of our family of brands and at the top of our customers' expectations.

Given the changing dynamics of the telecommunications landscape, SBC's marketing efforts have to take into account two additional challenges: opening/expanding competition in each of our domestic markets, and the likelihood that the majority of our competitors will initially enter our markets primarily as resellers, rather than unbundlers or facilities-based providers, with the resulting difficulty in differentiating SBC's offerings. Accordingly, in developing product strategies our marketing team is taking into account the facts that we will lose some of our customers, that our customers may have a difficult time differentiating some of SBC's products and services from those of other providers, and that it will be more costly to maintain and grow our customer base.

Consequently, in addition to providing our customers breadth, simplicity, coverage and quality, SBC's marketing efforts are intended to:

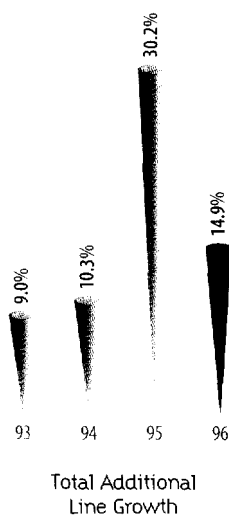
- Expand the market for telecommunications services;
- Attract and retain customers; and
- Maximize revenue per customer.

Additional Lines

(In Thousands)	1992	1993	1994	1995	1996
	2,002	2,274	2,523	2,818	3,289

Additional Line Revenue Growth

	9.0%	10.3%	10.3%	30.2%	14.9%
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Growing the Market

SBC's marketing strategies grow the market – which will benefit SBC both as retailer and wholesaler – by maintaining a sharp focus on product development and innovation, and successful execution of product launches.

Product Development: With business and residential consumers increasingly needing more telecommunications services with which to better manage their time and resources, ensuring that new products and services are available in the market is critical to capturing the momentum of this growing telecommunications marketplace. SBC recognizes that successful new product development requires that we pay close attention to emerging marketplace trends and listen carefully to our customers and create solutions to their specific needs.

case in point

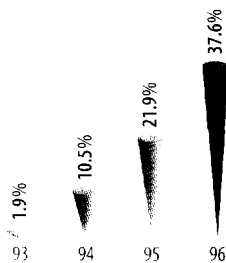
SBC's Internet/Intranet Transport Service was designed to solve the problems Internet Service Providers (ISPs) were encountering in managing their modem pools and providing uninterrupted service in the face of explosive demand for Internet access. A team composed of packet-switched technology experts from TRI and product development specialists from

Southwestern Bell met with regional and national ISPs to understand their requirements and then sought out the right technology to meet those needs. The result is that as of May 1, 1997, only four months after the service was introduced, SBC has signed up 30 ISPs and is in the process of negotiating with about 60 other ISPs in the Southwestern Bell region. SBC plans to roll out the product in the California market and eventually to offer the product to businesses for use in their internal Intranets.

FasTrak Managed Frame Relay Service was developed in order to meet the needs of our business customers who want to outsource the management of their Frame Relay network. The service combines Pacific Bell's Frame Relay service with an extensive selection of equipment and maintenance options, and network monitoring, providing our customers with an integrated, end-to-end solution.

Product Innovation: Extensive research into customer needs, calling habits and reaction to other product rollouts enables SBC's marketing organization to develop and provide new products to grow the marketplace.

SBC's industry-leading Caller ID penetration reflects well-executed product introduction.



1.5%
Pacific Bell began offering Caller ID in 1996.

Caller ID Number Penetration — Residential

case in point

Local Plus is one example of how SBC introduces innovative products that customers want. Through extensive market research SBC learned that many customers are uncomfortable with usage-based billing. While SBC already has flat-rate residential calling plans in our five states, toll is a measured service. Consequently, to meet the needs of our customers and stimulate revenue growth, SBC began offering Local Plus — the first flat rate toll service — in its Southwest Texas and Dallas market areas. While SBC anticipated that many large-volume toll users would choose to transfer to this cheaper flat-rate service, SBC was pleased to see that many of its low-volume users were willing to buy-up to get this full flat-rate service.

Another innovative product, **1+Saver Direct**, which is based upon research that showed that most customers call only a few toll numbers, is a flat-rate service that allows our customers to call one number anytime, without time restrictions. 1+Saver Direct is currently available in Arkansas, Oklahoma, Kansas and Missouri, with approval pending in Texas.

Pacific Bell Worldwide Calling Card and Worldwide Business Calling Card is a new product developed in order to address our customers' desire to have one calling card that could be used for both interLATA and intraLATA calls and be assured that they can

always access the Pacific Bell network and be able to obtain Pacific Bell rates. Pacific Bell's new 800 number service drastically improved calling card volumes and has been an effective means to grow calling card revenue and prepare for long distance entry.*

Effective Product Introduction: No matter how good SBC's new products may be, a failed product launch can damage revenue growth potential and enable the competition to seize the market lead. SBC's marketing organization is focused on effectively canvassing and priming the market so that new products can be rolled out at the right time, through the right distribution channels, and advertised so that customers will readily recognize the product's value.

case in point

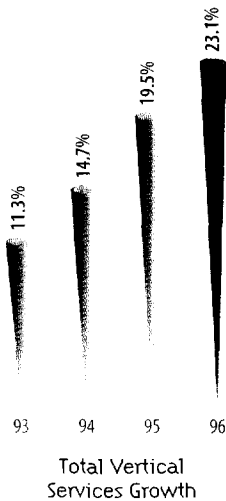
SBC achieved its industry-leading **Caller ID** penetration — double the industry average — in just four years, primarily through carefully managed product introduction. SBC's marketing campaign included four key steps to ensure successful product launch.

- ① SBC's marketing staff, in coordination with our External Affairs organization, surveyed and solicited input from community and consumer groups regarding the potential for this product.
- ② The sales team underwent specialized training to learn how to sell what could be a controversial product.

Caller ID Number Customers — Residential

	1992	1993	1994	1995	1996
Southwestern Bell	1,145,365	1,145,365	1,145,365	1,145,365	1,145,365
Pacific Bell	1,145,365	1,145,365	1,145,365	1,145,365	1,145,365
SBC Total	2,290,730	2,290,730	2,290,730	2,290,730	2,290,730

*InterLATA services offered through an agreement with an interexchange carrier



③ The marketing staff decided to make the customer decision to try the product “risk free” by offering incentives such as free Caller ID equipment or a month’s service free, or by integrating it into other package plans.

④ Even after the initial product rollout, the marketing team continued to listen and respond to customer needs by offering both name and number Caller ID service and helped establish a nationwide platform so that name and number recognition could be provided even from another state.

Attracting Customers

With competing telecommunications companies able to offer identical or very similar products and services, SBC’s marketing efforts differentiate our offerings by making it simpler and more convenient to find, buy and utilize our products. SBC’s marketing strategies achieve these objectives by broadening our distribution channels, improving customer contact processes, incorporating human factor engineering into our products, and designing products or providing services that make it easy to become an SBC customer.

Distribution Channels: Customers have clearly indicated that they want to purchase telecommunications services in new ways that offer ease and convenience – over the phone, via the Internet, through mail order catalogs, or in a take-home box that simplifies buying and activating the service. A leader in pioneering innovative distribution channels, SBC’s broad

distribution system continues to find new ways to go where the customers are.

case in point

SBC offers customers the opportunity to purchase a full array of SBC wireline, wireless, and vertical services at outlets in shopping malls, grocery, drug and electronics stores, and, in select local markets, SBC’s own full-service retail outlets. We also reach customers through alliances. As an example, an owner of a Multi-Dwelling Unit (MDU) property, in a “sales agency” relationship with SBC, may encourage their tenants to consider the SmartMoves product – a “one-stop shop” packaging telephony, wireless and video/entertainment service and, in the future, we hope to offer home security, Internet access and interLATA long distance. Similarly, a Lucent representative making a presentation to sell business equipment might refer a prospect to SBC’s long-distance, high-speed data transport, or private switched services. And we make sure we take advantage of customer contacts — when customers call our business office, our service representatives are likely to inform them of a broad range of products, including wireless services.

Improvement in Customer Contact Processes:

To strengthen our relationships with our customers and make doing business with us enjoyable, SBC is leveraging the many different ways we interact with the customers.

case in point

SBC’s diversity marketing practices take into account the multilingual needs of our customer base. Southwestern Bell currently offers significant support in its five state

region for our Spanish speaking population – 28 percent of the population of Texas is Hispanic. In California, Pacific Bell supports Spanish, Japanese, Korean, Cantonese and Mandarin, Tagalog, and Vietnamese. The ability to address our customers in their language of choice allows a representative to explain our products and services and answer questions with ease.

SBC's Customer Care Centers offer extended hours and weekend service in order to be more flexible to customer needs. For example, in scheduling installation services, our customers tell us when they want us to be there and we meet that schedule – 100 percent guaranteed.

SBC's joint marketing of Southwestern Bell wireline and wireless services and our joint wireless/wireline billing option streamlines the purchasing and bill paying process for two of our primary lines of business.

Making our products simpler to use:

We're making our products easier to use – and more useful to our customers – by engineering our products to reflect how our customers will use them.

case in point

SBC's CallNotes product line has a number of features that make the product more flexible and usable from the customer's point of view. For customers with both our wireless service and residential service, SBC offers **Universal Mailbox**, which provides the benefit of one mailbox for messages from either service. For multilingual Spanish/English households in our San Antonio, Houston, El Paso, and Dallas/Fort Worth markets, customers can choose CallNotes instructions in either English or Spanish.

Simplifying the Installation Process:

Many customers resist trying new services simply because they're not confident they know how to install or utilize the service in the most effective manner. SBC believes we can grow our customer base by offering assistance up-front.

case in point

SBC's Internet Service has been especially designed so that even our less computer-literate customers feel comfortable buying the service. SBC offers just a few price plans, an important step towards simplifying the purchasing process. To make the installation process easier, SBC's product development team worked with Netscape to develop software which makes it easy for anyone in the household to install and get started with the service. SBC also provides a well-staffed Help Desk which assumes that the customer probably knows nothing about the Internet or their computer.

Work at Home and Small Business

Start-up Packs are just two examples of products available in our California market that help customers be aware of all the steps that they must go through to start their own business and at the same time explain how a broad array of our telecommunications services can contribute to their success.

Phone in a Box is a convenient way for our wireless customers to take home and immediately start using our wireless service.

Prepaid Wireless service is another way we make the purchasing decision easier; with a prepaid calling card, our customers gain control of how much wireless service they use, while eliminating the credit approval process during activation.



Increasing Our Revenue Streams

In a deregulated marketplace with an increasing number of competitors, marketing and sales resources must be concentrated on those market segments that can generate the most value for our company. Developing packages for these segments that encourage expanded usage and maximize our revenue per customer is central to reaching SBC's marketing objectives. And given the more competitive marketplace, developing strategies to retain our best customers is also crucial.

Identifying High-value Segments: Segmenting our customer base into different groups based upon lifestyle, ethnic group, or overall telecommunications needs enables SBC's marketing organization to better design, advertise and offer packages of services that truly meet customers' needs.

case in point

In our business market, SBC is in the process of rolling out our National Account strategy, which is designed to leverage our relationships with the 170 Fortune 500 businesses that are headquartered in and have multi-state presence in our seven-state region. SBC also segments the business market by industry functions which include healthcare, financial institutions and state and local governments, in order to tailor services to these particular sectors' telecommunications needs.

On the residential side, SBC segments its market through marketing strategies designed, for example, around the preferences of our Asian and Hispanic

communities and senior citizens. To build long-term relationships with customer groups who are expected to be the premium telecommunications users of tomorrow, SBC has designed **Campus Connections**, a package of services that are designed for a college student's active lifestyle.

Emerging Products: We are developing important new products that will provide customers with more value-added vertical services.

case in point

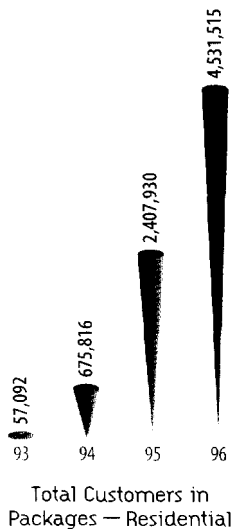
In 1997 SBC plans to offer **Home Security** services and equipment under its Southwestern Bell brand name. While restricted by the FCC from monitoring alarm services, SBC is expected to seize a portion of this important revenue stream by acting as an agent to sell and install security alarm services and equipment, enabling customers to put this service and their other SBC telecommunications products on one bill.

High Speed Data Service (HSDS) is a planned new, regulated service for both residential and business customers. This service is expected to provide unlimited high-speed transport from an employee's home or office to a designated private network or the Internet using SBC's existing copper plant.

LAN in a Box is a turn-key solution for small businesses and some Work-at-Home consumers that provides the CPE (a hub, fax/printer servers and network interface cards) and the wiring to establish a LAN.

Usage-based Products such as **Call Return and Repeat Dialing** have been especially popular with our customers. SBC will develop additional usage-based products, giving our customers more flexibility in how they use SBC's products.

Packages of popular products increase SBC's revenue per customer.



Messaging Products are being developed by SBC to better serve the fast-paced lives of our customers. **Message Delivery to Non-Subscribers** is a potential new service that allows customers to send or forward messages to an individual or group who do not have mailboxes on SBC's network. **Message Retrieval via the Internet** will enable customers to play back voice messages and view fax messages through the Internet. **Messaging to Mexico** will allow customers to send, copy or forward messages from their mailbox to another mailbox across the border at a flat rate per message.

Faxilities Services-Business Messaging Services includes three products: **FAXNotes Service**, **CallNotes with Fax Service** and **FaxStacker Service**. FaxNotes is designed to provide a customer with a personal fax mailbox. For workers who share a fax machine, this service provides the ability to store faxes for later retrieval. CallNotes with Fax Service combines voice and fax mail. FaxStacker will permit a customer to accept all incoming faxes and retrieve the faxes in the order the customer wants.

Buy-up Packaging: Creating packages of products serves a number of objectives. For customers, a package that provides all the telecommunications services they need at a discount is a great deal. From a revenue-generating standpoint, packages that combine popular products with less familiar services can entice customers and increase SBC's revenue per customer.

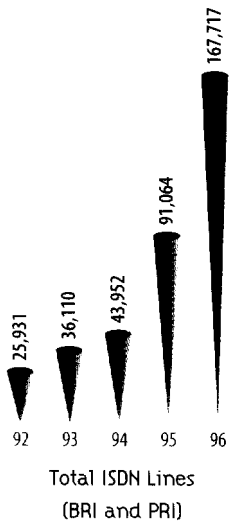
case in point

SBC's **The Works** package is designed to attract the heavy telecommunications service user. With 14 of the services our customers said they like most offered at a steep discount, it is not surprising that SBC has sold over one million Works packages. For customers who like the Works concept but who don't necessarily have use for 14 different services, SBC is currently designing and working to obtain approval on a scaled down Works package.

ISDN Turbo Access, a new product currently being designed for the small and medium business market, supplies a terminal adapter for ISDN, sets up inside wiring and provides the product installation so that all ISDN customers have to do to get started is sign up. If a customer also signs a two year service agreement, the installation fee for ISDN service is waived, enabling our customers to avoid any up-front fees.

Retention Strategies: Retention programs take a number of forms. Some include a proactive solicitation to move customers from one product line to another less susceptible to competition; others involve trying to cross sell or sell-up when the customer desires to terminate a service. "Winback" programs can be effective for high-value customers who have already left. And supporting all of these strategies are customer loyalty programs designed to incent the customer to value their SBC relationship.

Customer trust is an important differentiator for SBC.



case in point

Transitioning Customers to Different Product Lines. In the early 1990s, before our markets became truly competitive, SBC implemented a toll strategy designed to encourage MTS users to switch to extended area local calling plans or SBC's optional calling plans. While flat rate/expanded scope calling plans reduce our revenues, they meet the needs of our customers and help to ensure that we minimize revenue loss through toll competition.

Cross-Sell/Sell-up Strategies turn a revenue-losing situation into a revenue-maximizing opportunity. Often, customers who want to terminate a service are willing to try something different in its place. Consequently, when customers call into an SBC business office to cancel a service, our service representatives ask what was wrong with the product and why they want to terminate service. By more precisely understanding what the customer needs, our sales representative may be able to offer an alternative that better meets that customer's requirements and potentially grows SBC's revenue base.

Winback Programs, such as those implemented in Pacific Bell's intraLATA toll market, have been key in maintaining customers and protecting important revenue streams. In the California market, where toll revenues are a \$1.3 billion business, Pacific Bell has been able to winback a significant number of business customers through increased pricing flexibility and the ability to create customized contracts. Although many predicted that intraLATA toll competition would increase market-share losses, Pacific Bell has been able to regain some of the

market share lost in both the business and residential segments since formal toll competition was introduced in 1994.

Creating Rewards/Loyalty Programs.

Southwestern Bell, Pacific Bell and Southwestern Bell Mobile Systems have been aggressive in developing loyalty programs that reward customers who buy more services. Pacific Bell's loyalty program enables customers to generate points which can be cashed in for a variety of products and services. While other industries offer similar rewards programs, the range of businesses offering products and services through the program make Pacific Bell's program especially attractive. Southwestern Bell's loyalty program rewards complex, high value customers based upon the number of services they buy from SBC across product lines. In keeping with our customers' preference to buy locally, SWB's high-value customers get to choose from a selection of products and service that are tailored to their local market. Southwestern Bell Mobile Systems offers its Advantage Program to its wireless customers and enables customers to trade in their points for additional minutes of use.

Reinforcing Trust as our Competitive Differentiator

All of SBC's marketing strategies and objectives recognize that our competition will be aggressive and in many instances well researched. Especially in a competitive marketplace, SBC's advertising, sales, and marketing actions can better define for the customer the type of company we are. Recognizing that

SBC plans to create a new standard of conduct in the telecommunications industry.

SBC will face increasing competition from other telephone service providers who want to provide local service, we are focused on developing a communications platform which will be carried through all of our brand communications and set SBC apart from the competition. Through this campaign, SBC intends to provide pledges of conduct to our customers that create a new standard in the telecommunications industry. Our campaign has been developed through extensive research of our current and potential customers and is designed to ensure that SBC fulfills its commitments, so that our customers trust every product and service SBC provides.

Marketing Data

	1992	1993	1994	1995	1996
Additional Lines (In Thousands)					
Southwestern Bell	733	794	879	1,000	1,100
Pacific Bell	1,342	1,472	1,635	1,710	1,800
Nevada Bell	7	8	9	10	11
SBC Total	2,082	2,274	2,523	2,720	2,911

Additional Line Revenue Growth

Southwestern Bell	9.8%	9.3%	10.1%	10.1%	10.1%
Pacific Bell	—	8.9%	10.4%	10.4%	10.4%
SBC Total	—	9.0%	10.3%	10.3%	10.3%

Vertical Services Growth — Residential

Southwestern Bell	12.1%	14.3%	20.3%	20.3%	20.3%
Pacific Bell	—	7.4%	7.7%	7.7%	7.7%
SBC Total	—	11.3%	15.1%	15.1%	15.1%

Vertical Services Growth — Business*

Southwestern Bell	11.9%	14.6%	18.0%	22.4%	22.4%
Pacific Bell	—	5.5%	7.2%	7.2%	7.2%
SBC Total	—	13.7%	18.7%	25.3%	25.3%

Total Vertical Services Growth

Southwestern Bell	11.9%	14.6%	19.2%	20.9%	20.9%
Pacific Bell	—	7.1%	7.2%	7.2%	7.2%
SBC Total	—	11.3%	14.7%	19.5%	19.5%

Caller ID Number Customers — Residential

Southwestern Bell	8,185	114,345	651,074	1,653,268	1,653,268
Pacific Bell	—	—	—	—	—
SBC Total	8,185	114,345	651,074	1,653,268	1,653,268

Caller ID Number Penetration — Residential

Southwestern Bell	—	1.9%	10.3%	21.3%	21.3%
Pacific Bell	—	—	—	—	—

Customers in Packages — Residential

Southwestern Bell	—	57,092	675,816	2,407,330	2,407,330
Pacific Bell	—	—	—	—	—
SBC Total	—	57,092	675,816	2,407,330	2,407,330

*Business vertical services reflect revenue from vertical features only.

SBC GROWTH PROFILE 1997

Marketing Data

	1992	1993	1994	1995	1996
Usage-Based CLASS Customers					
Southwestern Bell				2,525	5,000,711
Pacific Bell					
SBC Total				2,525	5,000,711
ISDN Lines (BRI and PRI)					
Southwestern Bell	17,443	21,436	23,722	30,799	36,917
Pacific Bell	8,488	14,674	20,230	30,235	36,917
SBC Total	25,931	36,110	43,952	61,034	73,834
Average Monthly Wireless Churn					
Incumbent Cellular Markets	2.2%	2.1%	2.0%	2.1%	1.8%

SBC GROWTH PROFILE 1997

customer and operations support

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H

Customer and Operations Support



Telecommunications is a complex business in which customers demand perfection. Meeting those demands requires near-flawless network performance, well-trained employees, integrated information systems, and a focused awareness of what customers really expect and need from their service provider. In an increasingly competitive marketplace, SBC's exceptional customer and operations support are core strengths.

SBC's service quality and customer support are important assets in meeting future competition.

Unequaled reliability — our target is 99.99 percent — is fundamental to SBC's continued success in the telecommunications business. Achieving that level of reliability requires sophisticated behind-the-scenes systems and procedures and the sustained commitment of an extensive and well-trained work force.

We believe that Customer Service and the operations support systems and procedures that enable us to deliver consistent, high-quality service are significant advantages that can be expanded even further. To make the most of this opportunity we established a service and cost-management-focused Shared Services subsidiary in 1996. This entity now has overall responsibility for operations, planning, and implementation of corporate-wide processes and systems. And, we are combining and merging functions from throughout SBC, including: data network operations, wireline operational support systems, billing and remittance systems and applications, customer care

applications, financial and employee related processes and systems, data center planning and support, technology architecture and standards, marketing and sales applications, and real estate management.

To put this in perspective, the Gartner Group (an information technology consulting firm) in recent comments about the industry noted that the "complexity of the telecommunications business environment, especially for information support, is well above average." And, Gartner further commented that SBC is among the most extensive users of packaged software across a wide range of available technologies, with overall ratings for support and software well above average.

Translating this information technology prowess to our customers, who have come to expect virtually perfect service, means making delivery of dial tone look easy. But the complexities of providing and continually maintaining excellent service are striking.

SBC has a substantial investment in systems to maintain service quality.

To put our efforts in perspective:

Southwestern Bell Telephone – Texas, Missouri, Arkansas, Oklahoma and Kansas 1996 Totals

- 10,000 new lines added
- 1,000,000 new services added
- 15,000,000 minutes of service added
- 60,000,000 calls to our customer centers

Pacific and Nevada Bell – California and Nevada 1996 Totals

- 10,000 new lines added
- 1,000,000 new services added
- 15,000,000 minutes of service added
- 47,000,000 calls to our customer centers

Our success in the marketplace begins with creating value for the customer. Our highly trained representatives work with customers to design solutions that bring together SBC products and services to best meet each customer's needs. Behind the scenes, sophisticated service activation systems distribute service requests through complex interactions affecting central office assignment, circuit provisioning, and outside plant assignment to dispatch the appropriate resources to the customer's premise. Integrated purchasing, warehousing and inventory systems respond for appropriate and timely equipment provisioning. Marketing-oriented customer databases are updated and customer billing records are established or updated.

Also, even before service is "turned on," our representatives provide additional value through customer training.

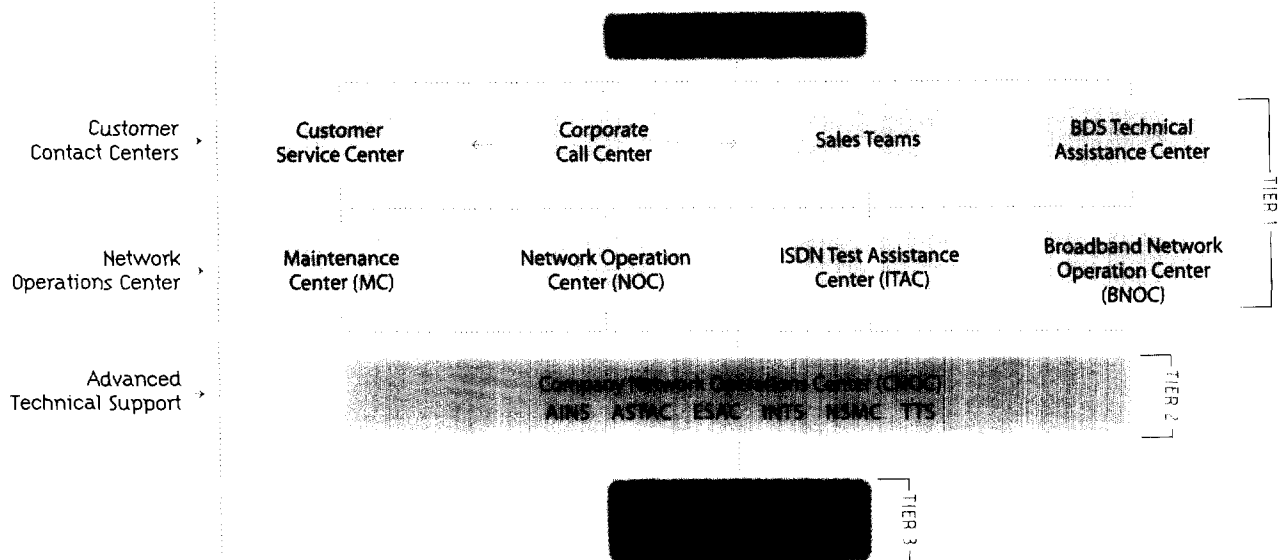
Once service is established, ongoing network reliability is critical to sustaining our relationship with every customer. Our service delivery

appears to be simple and transparent to our customers, and our goal is to maintain that perception. Although we respond to trouble our customers report, each line is also electronically tested remotely every 24 hours to ensure it meets our quality requirements. Southwestern Bell and Pacific Bell have made a substantial investments in plant and equipment – 14,000 buildings and 28,000 vehicles – to support service delivery. For example, Southwestern Bell Telephone has invested more than \$2 billion for over 400 related and/or integrated operational support systems to efficiently operate a state-of-the-art network and provide service to customers.

Customer Care Centers

In this context, three highly sophisticated levels or clusters of supporting systems provide customer contact, network surveillance and maintenance. The first "tier" is designed to support the direct needs of our customers. The second and third tiers specialize in more advanced functions with

Our service delivery appears simple to our customers and our goal is to keep it that way.



unique skill requirements, and provide for support of our customer contact centers.

TIER 1 addresses the primary service needs of all of our customers.

Customer Call Centers handle both in-bound and out-bound telemarketing efforts. Within Southwestern Bell territory, outbound telemarketing through these customer call centers has provided a significant distribution channel for the full array of SBC products.

Sales Teams directed at National Accounts and select business accounts address customized business products such as DS1/DS3, Frame and Cell Relay.

Customer Contact Centers receive service trouble reports 24 hours a day, seven days a week. The Center coordinates the overall network repair and follows up with the customer to ensure the customer's service is working to their satisfaction.

Business Development Services (BDS)

Technical Assistance Center provides Local Area Network support for our business customers in the data arena.

These customer-contact centers are supported by *Network Operations Centers (NOCs)*, that monitor all of SBC's central offices, provision our networks for new services, clear any trouble that arises in the network and dispatch central office technicians, as appropriate. The NOCs utilize a sophisticated operational support system called Network Monitoring and Analysis (NMA). The NMA system collects alarms and trouble messages from our network, monitors everything from dial tone to high speed data transmission and routes the trouble to the appropriate analysis center for resolution.

SBC has created an integrated, multilevel customer support process that ensures we can continue to deliver high-quality customer service.

TIER 2 supports the technical needs of our most sophisticated network operations.

Electronic Systems Assistance Center (ESAC) addresses the more complex and critical conditions identified and referred by the Network Operations Center. The ESAC is staffed with our most experienced technicians.

Advanced Intelligent Network Support (AINS) provides specialized service for our AIN service. As an example, when Pizza Hut, an AIN customer in Houston, needs assistance

with their network they call AINS directly to get the product specific support they need.

Network Surveillance Management Center (NSMC) manages network traffic controls and our interoffice trunk network.

Transport Technical Support (TTS) provides technical support for SONET rings and other fault tolerant configurations.

TIER 3 facilitates direct interaction with our vendors.

Local Service Provider Service Center

The Local Service Provider Service Center (LSPSC) has been established to address our wholesale customers, an important new business segment. The LSPSC provides Competitive Local Exchange Carriers with a single point of contact for their service needs. Service representatives in this center

are trained to handle orders for interconnection, resold residence and business services, unbundled network elements, and billing services. The initial training of these representatives takes approximately three months, supplemented with frequent updating and continuing mandatory training.

SBC GROWTH PROFILE 1997

networks

I Networks



SBC's network planning places particular emphasis on designing networks to support the marketing plans that flow from our understanding of customers and their needs. Our objective is to create and maintain the capacity and capability to meet current and anticipated marketplace demands for timely high-quality products and services.

The breadth and quality of SBC's networks are key advantages.

Effective network planning is increasingly crucial as network investment is driven primarily by exploding consumer demand for a broadening array of telecommunications services and to a lesser degree by regulatory requirements. In the new competitive environment, SBC's robust, feature-rich networks are key to our ability to:

- Meet rapidly growing demand for services such as additional lines, Internet access, high speed data transport and wireless services;
- Handle increased traffic volumes from competitors utilizing our network infrastructure; and
- Respond to changing network requirements resulting from, for example, greater demand for applications requiring packet-switched, rather than circuit-switched, networks or the changing traffic patterns generated by the Internet phenomenon.

In allocating network spending, SBC's highest priority is investing in attractive growth opportunities in its Southwestern Bell, Pacific Bell, Nevada Bell and Cellular One markets. Investment allocations are made through a

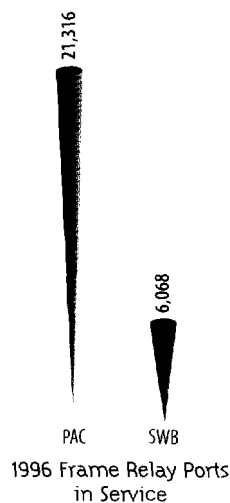
disciplined process that targets capital spending to those areas that offer the greatest rates of return.

Other factors affecting network planning include regulatory requirements and increased traffic volume generated by the use of our networks by competitors. Further, we are focusing on Core Process Reengineering (CPR), an area in which Pacific Bell has particular expertise. CPR will enable SBC not only to lower operating costs but also to improve the efficiency with which we deliver new products and services from our networks. Pacific Bell's CPR efforts have been underway for over three years and have resulted in approximately \$1 billion in annual cost savings.

Enhancing the Strengths of our Networks

SBC's networks are key advantages, providing strong foundations from which to provide the products and services customers will demand in the future. We are focused on maintaining networks – both fixed wireline and wireless – second to none in quality, depth and breadth and in their ability to provide customer access and dependability. Over the past year, SBC

Investment allocations are made through a disciplined process that targets capital spending to those areas that offer the greatest rates of return.



has placed particular emphasis on:

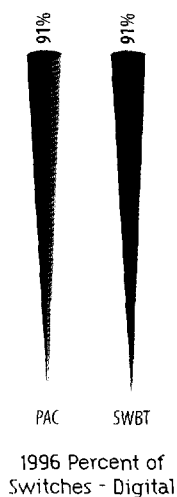
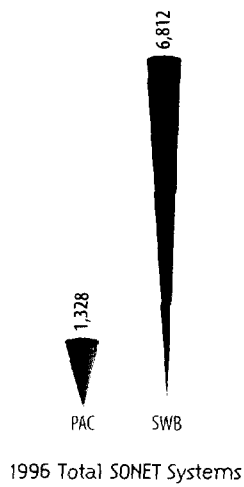
- Providing the majority of our customers with access to ISDN technology.
- Ensuring that the majority of our customers can utilize the benefits of the functions and features of SS7 technology.
- Investing in Local Area Networks and modem pools to support our Internet products.
- Continuing to deploy Advanced Intelligent Network platforms.
- Making Frame and Cell Relay technologies available at all of our major wire centers.
- Creating network solutions that alleviate potential data congestion problems for Internet Service Providers and SBC.
- Improving coverage and quality of our wireless IS 54 TDMA networks.
- Continuing to deploy SONET Rings and SONET-based infrastructure.
- Continuing to deploy fiber out into the feeder position of the network.
- Meeting our remaining regulatory capital commitments.

Additional Capital Investment Directed Toward Emerging Revenue Streams

This network emphasis will continue and will embrace our new markets in California and Nevada. Moreover, the dynamic nature of the telecommunications industry brings compelling new opportunities customers want and networks must accommodate.

In addition to investing in the network infrastructure to provide AIN, Fast Packet, ISDN, Internet, and Long Distance services across SBC's Southwestern Bell, Pacific Bell and Nevada Bell networks, our 1997 capital investment plans support:

- Expansion of SBC's video conferencing and voice-activated dialing products.
- Initial rollout of ADSL services and Home Security services.
- Deployment of a GSM PCS network in California and Nevada and a TDMA PCS network in Oklahoma.
- Provision of an analog hybrid broadband fiber coaxial network to Multiple Dwelling Units (MDUs), allowing SBC to add video to our SmartMoves product offering. This analog hybrid broadband fiber coaxial network will be designed so that MDUs can easily be migrated to a Fiber-to-the-Curb (FTTC) architecture when FTTC is widely deployed.
- Continuing transition to IS 136 TDMA wireless technology in Southwestern Bell and Cellular One markets where significant competition based upon wireless functionality warrants the investment.
- Development of the National Access Point (NAP) in California to provide additional Internet capacity.
- Installation of systems to provide "local number portability" as required by the 1996 Telecommunications Act. Local number portability allows customer to retain their current telephone number when changing local service providers.



- Deployment of Internet/Intranet Transport Service (IITS) to provide aggregation of data traffic within the central office for medium and large business customers, particularly Internet Service Providers. This service reduces the customer's need to invest in CPE (modems), enhances transmission speeds and minimizes maintenance.

Investment In Network Backbone Infrastructure

In 1997, SBC plans to extend its broadband network, which is primarily based on Core and Edge ATM switches and SONET Ring functionality. This ATM-based backbone will improve network efficiency and sustainability while decreasing network congestion. When coupled with SBC's existing SONET interoffice facilities, these ATM switches will provide the most sophisticated broadband platform currently available and position SBC well to expand our existing customer relationships.

In addition, SBC will continue to lay the groundwork for an economically appropriate Fiber-to-the-Curb network architecture by deploying fiber to remote terminals in our strategic wire centers. The fiber will enhance residential work-at-home applications in locations which exceed ADSL transmission distances and facilitate Southwestern Bell's video offering to apartment buildings and other multiple dwelling units.

Aligning SBC and Supplier Objectives

With dramatically shortening product life cycles and major shifts in the demand for telecommunications services, SBC is focused

upon improving time-to-market for network services. Quickness and agility in deploying networks will

- strengthen our ability to meet the demands of large business customers;
- reduce our risk exposure; and
- create greater opportunities for product and service differentiation.

To accelerate time-to-market, we are increasing our emphasis on alliances with our suppliers. While SBC remains committed to acquiring quality systems at low cost, we are also forging relationships that focus our suppliers on the same time-to-market objectives. With current suppliers, SBC is developing open systems and service creation environments which give SBC the flexibility to create our own products or turn to third parties. In addition, because SBC will increasingly provide unique and customized solutions that require more customer training and communication, we are engaging our suppliers in this education process.

In instances where SBC participates in the design of a new product with commercial applications, we are working with our vendors to secure intellectual property rights so that SBC receives compensation when the product is sold to other communications providers.

Economic incentives are a key component of our ability to create tighter bonds with our suppliers. To create this incentive –



and significantly lower purchasing costs by leveraging our size and scale of our businesses – we will significantly reduce the number of suppliers.

Preparing for a More Competitive Marketplace

Increased competition carries the potential for increased strain on SBC's network facilities.

While new local service telecommunications providers like AT&T, Sprint, MCI, MFS and Teleport have utilized our network facilities in the past, the ability of these and other companies to compete in all areas of telecommunications brings new challenges. With more competitors entering our markets and with existing competitors less willing to provide information on their network infrastructure, the investment SBC has made to make its networks easily scalable will be invaluable in handling the increased traffic flow. In addition, SBC has been improving the capacity at its tandems to meet the capacity demands of new providers.

Capitalizing on New Regulatory Freedoms

Once SBC achieves regulatory freedom to offer interLATA services, we will be able to improve network and cost efficiency by providing services across LATA lines. Frame and Cell Relay services are among the products that we can provide more cost effectively with the lifting of interLATA restrictions.